

**Written Statement for the Record of the Honorable Stephen K.
Benjamin
Mayor of Columbia, South Carolina**

On behalf of the Municipal Bonds for America Coalition

**United States House of Representatives
Committee on Ways & Means
Hearing on Tax Reform and Tax Provisions Affecting State and Local
Governments
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Thank you for the opportunity to submit testimony in support of maintaining the tax exemption for municipal bonds.

Municipal Bonds for America (<http://www.munibondsforamerica.org/>) is a non-partisan coalition of municipal bond issuers, state and local government officials and other municipal market professionals working together to explain the benefits of the tax-exempt municipal bond market, which provides the financing needed to build vital infrastructure throughout the United States.

I serve as Mayor of the City of Columbia, the capital of South Carolina and home of the University of South Carolina and Fort Jackson, the army's premier training base. Like many cities, Columbia faces the dual challenges of maintaining aging infrastructure that is vital to health, safety and our local economy, and building new infrastructure to accommodate population and economic growth. Federal mandates and dwindling federal assistance add to these challenges. I also sit on the Executive Committee of Municipal Bonds for America.

Off the top, Municipal Bonds for America is pleased that Representatives Lee Terry and Richard Neal have introduced a resolution (H Res 112) celebrating the 200th anniversary of the first municipal bond and the 100th anniversary of the tax exemption for municipal bonds. The tax exemption for municipal bonds is not a special interest loophole or giveaway to the wealthy. It is a century-old compact between the federal government, state and local government, the public and investors that has built much of our nation's core infrastructure. I deeply appreciate Representative Terry's and Representative Neal's introduction of this resolution and urge the House to pass it.

The era of fiscal cliffs, debt ceiling showdowns and budget stalemates in Washington has many Americans wondering whether our government institutions are equipped to tackle the major issues of our day. However, at the state and local level, government continues to accomplish the routine tasks we often take for granted: sanitation, patrolling city streets, responding to fires and other emergencies, inspecting buildings and educating our children. While Washington holds hearings, fights ideological battles about infrastructure funding

sources and otherwise wrings its hands about our nation's aging infrastructure, state and local governments are busy creating jobs and building, renovating and maintaining the core infrastructure that serve as the backbone of civilized society and are essential to our economy, public safety and, most importantly, public health: schools, education, affordable housing, hospitals, airports, roads, reliable electric generation and distribution, bridges, highways, transit and water and wastewater systems.

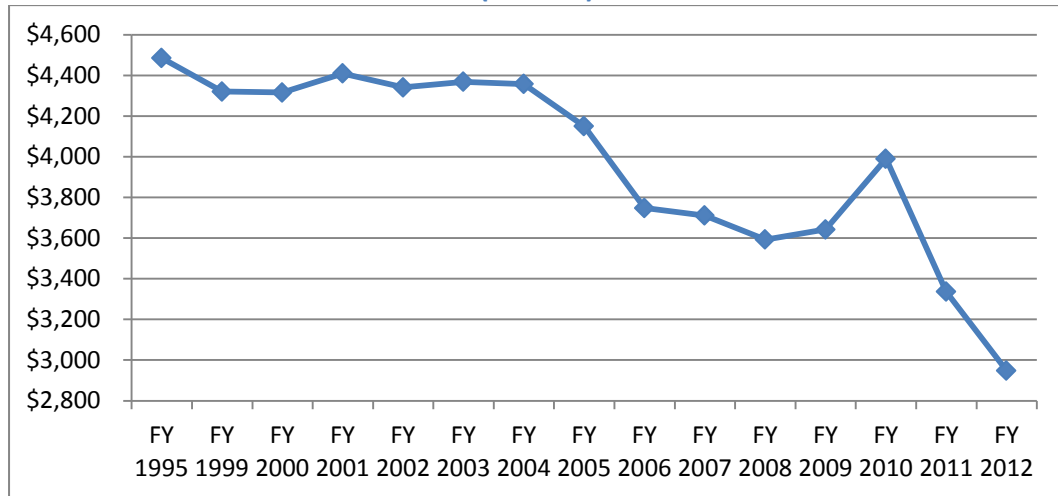
I and most of my fellow state and local leaders are therefore increasingly concerned, if not alarmed, about proposals that would cap or even eliminate the primary tool that state and local governments use to finance these basic infrastructure investments: tax-exempt municipal bonds.

Tax-exempt municipal bonds are a stable, flexible and successful financing tool that are among the safest securities in the world; the default rate on investment grade municipal bonds is less than 0.1 percent. (The rare municipal default garners such broad and intense media coverage *because* of the rarity of such defaults.) The tax exemption for municipal bonds dates to the creation of the income tax. Its elimination would break a century-old commitment to local governments, the public and investors. It makes little sense to break this commitment in an era of ever-increasing federal mandates on local governments and increasingly scarce federal grants.

Indeed, given the downward funding trend and outright elimination of many core state and local government grant programs over the past decade, capping or eliminating the tax exemption for municipal bonds would effectively signal federal divestment in our nation's infrastructure.

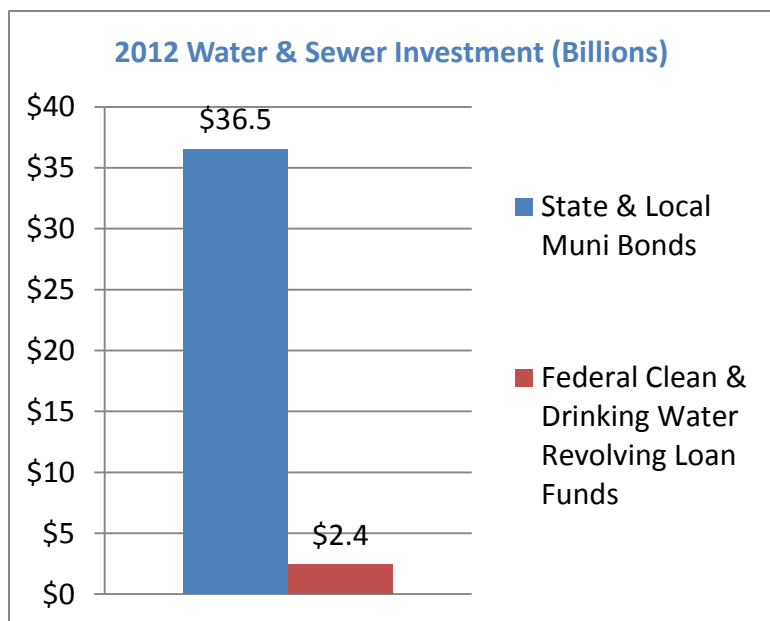
One need look no further than the Community Development Block Grant program for evidence of how federal grants for infrastructure have dried up. Congress and successive Administrations have cut funding for this program by 34 percent since FY 1995. When measured for inflation and population increase: *Congress would have to increase funding by 270 percent to bring funding back to where it was in 1978!*

**CDBG Funding FY 1995-FY 2012
(Billions)**



Similarly, federal funding for water and wastewater infrastructure has fallen from over 70 percent of such investments in the 1970's to a negligible share today. The federal funding that remains available for water and wastewater infrastructure investments comes mostly in the form of loans and is accompanied by so much paperwork and red tape that most utilities prefer to go to the bond market to finance improvements.

The majority of taxpayers who invest in tax-exempt bonds have annual incomes of less than \$250,000. In addition, everyone in the community benefits from the infrastructure investments made with municipal bonds. And, the tax exemption lowers local government borrowing costs; its elimination would lead to rate and tax increases that would disproportionately impact low- and moderate-income households and rob us of tens of thousands of solid middle class jobs.



In more typical interest rate environments, the yield investors receive from municipal bonds is up to 200 basis points lower than what they would receive on a taxable bond. But, because of the tax benefit, municipal bonds become a comparable investment, allowing state and local governments to borrow at a lower rate, saving billions of taxpayer dollars. In addition, the cost to the federal government for not taxing these investments is insignificant compared to the jobs they create and sustain and the overall benefit that tax-exempt bonds provide for citizens in every community.

In the next decade, our capital improvement plan will require the City of Columbia to issue well in excess of \$500 million in bonds. Removing or capping the tax exemption for municipal bonds would increase our borrowing costs significantly, an increase that would impact our taxpayers and utility ratepayers directly. According to a study by the Government Finance Officers Association (GFOA), in 2012, capping the tax exemption for municipal bonds at the 28 percent tax bracket as the Administration has proposed would have increased our borrowing costs by \$2.1 million or 15 percent. The absence of the tax exemption would have increased our borrowing costs that year by \$6.2 million or 42 percent. Either way, that is a big hit on a city with an annual budget of approximately \$100 million! Simply put, if either proposal were enacted, we would have to choose between delaying needed investments or pushing these higher costs on to our taxpayers and ratepayers. (On water and sewer, where we must meet federal mandates, we would have no choice: we would have to pass those higher costs on to ratepayers.)

The arguments against the tax exemption suffer from significant flaws. In arguing that the tax exemption only benefits high-income taxpayers, critics fail to recognize that the tax exemption broadly benefits every American in the form of basic infrastructure, lower state and local taxes and lower utility rates. Other critics fail to appreciate the centrality to our economy and to public health and safety of state and local investments in water, wastewater, transportation and other core infrastructure. Implicit in these investments are jobs that are critical to the nation's economic recovery.

Most importantly, none of the proponents of eliminating or capping the exemption offer a realistic replacement to pay for basic infrastructure investments in a manner that does not burden state and local taxpayers and utility ratepayers with crippling tax and rate increases. As illustrated above, we are in an era of federal budget austerity. While grants may be an efficient means of assisting state and local infrastructure investment, state and local governments clearly cannot count on them. Similarly, while Build America Bonds and other direct subsidy and tax-credit bonds are a good *complement* to traditional tax exempt municipal bonds, they would be a poor replacement for numerous reasons:

- They have a narrower market than traditional municipal bonds,
- Programs to date have been too small to meet our nation's infrastructure needs,
- Their underwriting costs are more expensive than traditional municipal bonds, making them a poor choice for small issuers and
- In the case of direct subsidy bonds, sequestration has eaten into the subsidy, creating mid-year budget difficulties for many issuers,
- Sequestration has shown that the federal subsidy provided by these bonds can not be relied upon, injecting uncertainty into the marketplace.

Tax exempt municipal bonds provide our nation with the certainty of a stable, flexible and successful tool for financing infrastructure. I urge the Committee to refrain from limiting or eliminating this time-tested and valuable tool.



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As we work to renew economic growth in America, it is critical that cities and states have access to the capital they need to make our nation competitive.

Harry Black, Director of Finance at the City of Baltimore

SUPPORTING ORGANIZATIONS

Airports Council International – North America

American Public Gas Association

Association of Metropolitan Water Agencies

Bay Area Toll Authority

Business Oregon

California Special Districts Association

Chester County Economic Development Council

Chicago Regional Transportation Authority

Cleveland-Cuyahoga County Port Authority

Colorado Municipal League

Council of Development Financial Agencies

CPS Energy

CSDA Finance Corporation

Education Finance Council

Escambia County Housing Finance Authority

Florida League of Cities

International City/County Management Association (ICMA)

Investment Company Institute

Kentucky School Boards Association

National Association of Local Housing Finance Authorities

National League of Cities

National School Boards Association

South Carolina Jobs Economic Development Authority (SCJEDA)

Texas Association of Local Housing Finance Agencies
The Associated General Contractors of America
The League of Minnesota Cities